

Message Text

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AMEMBASSY BRASILIA
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INFO AMEMBASSY MOSCOW
USMISSION USUN NEW YORK
USMISSION GENEVA
AMEMBASSY WELLINGTON

C O N F I D E N T I A L STATE 213908

E.O. 11652: GDS

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TAGS: UNDP, EAID

SUBJECT: UNDP: U.S. PROPOSAL TO BUY ACCUMULATED NON-
CONVERTIBLE CURRENCIES

REF: (A) STATE 179843; (B) STATE 38843

1. SUMMARY: ONE OF THE KEY FACTORS IN THE FINANCIAL CRISIS OF THE UNITED NATIONS DEVELOPMENT PROGRAM (UNDP), AND ONE GENERALLY NEGLECTED BY LDC'S HAS BEEN THE PAST AND CONTINUING ACCUMULATION OF NON-CONVERTIBLE CURRENCIES, PRIMARILY FROM THE SOVIET UNION AND OTHER SOVIET BLOC COUNTRIES. THE UNITED STATES HAS TAKEN MAJOR STEPS TO DEAL WITH THE UNDP FINANCIAL CRISIS, INCLUDING ONE WHICH WOULD HELP WITH THE PROBLEM OF ACCUMULATED NON-CONVERTIBLE CURRENCIES (REFTEL A). IT IS IMPORTANT THAT LDC'S IN THEIR OWN ENLIGHTENED SELF-INTEREST ADDRESS THIS PROBLEM AND PRESSURE THE SOVIETS TO TAKE MEASURES TO RESOLVE IT. OUR SUGGESTED SOLUTION TO PURCHASE, BASED UPON OUR NEEDS, NON-CONVERTIBLE CURRENCIES WHICH HAVE ACCUMULATED ON THE BOOKS OF UNDP, IS ONE OF SEVERAL APPROACHES THE SOVIETS COULD AGREE TO. OTHERS INCLUDE THE SOVIETS INCREASING THE CONVERTIBILITY OF THEIR CONTRIBUTIONS OR LIBERALIZING THEIR EXCHANGE CONTROL MECHANISMS WHICH PROHIBIT OR INHIBIT THE USE OF GOODS

AND SERVICES BY UNDP AND ITS EXECUTING AGENCIES. ACTION POSTS ARE REQUESTED TO APPROACH HOST GOVERNMENTS FOR THE PURPOSE OF A) MAKING CLEAR THE DIRECT LINKAGE BETWEEN THE UNDP'S FINANCIAL CRISIS (WITH CONCOMITANT PROGRAM CUT-BACKS) AND THE ACCUMULATION IN THE PROGRAM OF UNUSABLE CURRENCIES (ABOUT HALF CONTRIBUTED BY THE USSR), AND B) PROPOSING THAT HOST GOVERNMENT DISCUSS THIS MATTER WITH OTHER LDC GOVERNMENTS AND SOVIET AUTHORITIES WITH A VIEW TO OBTAINING SOVIET AGREEMENT EITHER TO THE U.S. PROPOSAL OR A COMMITMENT TO OTHERWISE DEAL EFFECTIVELY WITH THE PROBLEM OF ACCUMULATED RUBLES IN UNDP. END SUMMARY.

2. ACTION ADDRESSEES, IF THERE IS NO OBJECTION, ARE REQUESTED TO APPROACH THEIR HOST GOVERNMENTS AND, CONFIDENTIAL

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DRAWING ON THE MATERIAL BELOW, CLARIFY THE ROLE OF UNUSABLE CURRENCIES IN UNDP'S FINANCIAL PROBLEM AND HOW IT AFFECTS THE HOST GOVERNMENT AS A RECIPIENT OF UNDP ASSISTANCE. POSTS SHOULD THEN SEEK TO AROUSE HOST GOVERNMENT INTEREST IN OUR EFFORTS TO RESOLVE THE PROBLEM. WE WOULD HOPE GOVERNMENT WOULD URGE SOVIETS TO EITHER AGREE TO U.S. PROPOSAL OR TO TAKE OTHER POSITIVE STEPS AIMED (A) AT UNLOCKING THESE ASSETS FOR USE IN UNDP'S WORLDWIDE PROGRAM, AND (B) AT AVOIDING THIS PROBLEM IN THE FUTURE (BY, FOR EXAMPLE, SOVIETS RELAXING EXCHANGE CONTROLS TO PERMIT GREATER CONVERTIBILITY, ETC.). POSTS SHOULD ALSO URGE HOST GOVERNMENTS TO APPROACH OTHER DEVELOPING COUNTRIES IN THEIR GEOGRAPHIC

AREA, RECOMMENDING THAT THEY ALSO APPROACH THE SOVIETS ON THIS QUESTION.

3. BACKGROUND: IN LATE 1975 UNDP SUDDENLY FOUND ITSELF IN SERIOUS FINANCIAL DIFFICULTY DUE TO A LACK OF SUFFICIENT LIQUID ASSETS TO FUND ITS PROJECTS. PROGRAM CUTBACKS OF DOLS 40 MILLION FOR 1976 (FROM DOLS 410 TO DOLS 370 MILLION) WERE REQUIRED. ALTHOUGH THE DETERIORATION IN UNDP'S FINANCES HAS BEEN ARRESTED, THE SITUATION REMAINS PRECARIOUS. THE CAUSES OF UNDP'S FINANCIAL CRISIS WERE CHIEFLY FIVE: A) POOR FINANCIAL PLANNING, B) ARREARAGES ON PLEDGES AND OTHER OBLIGATIONS, C) INFLATION, D) LOWER THAN ANTICIPATED VOLUNTARY CONTRIBUTIONS AND E) THE PROGRAM'S ACCUMULATION OF CURRENCIES FOR WHICH IT COULD FIND NO USE. LDC'S HAVE TENDED TO ASCRIBE ALMOST NO IMPORTANCE TO THE LAST NAMED FACTOR WHEN IDENTIFYING THE ROOTS OF UNDP'S LIQUIDITY CRISIS. IN FACT IT IS CERTAINLY AS MUCH A

KEY TO THE PROBLEM AS THE OTHER FACTORS AS DEMONSTRATED BY THE NEAR EQUIVALENCE OF THE TOTAL OF UNDP'S ESTIMATED HOLDINGS OF ACCUMULATED NON-CONVERTIBLE CURRENCIES AS OF THE END OF 1976 (DOLS 36 MILLION) AND THE LEVEL OF CUTBACKS FORCED ON THE PROGRAM FOR 1976 AS A RESULT OF THE FINANCIAL CRISIS.

4. TO HELP DEAL WITH UNDP'S FINANCIAL CRISIS THE UNITED STATES TOOK 3 MAJOR STEPS: 1) IT PUSHED FOR CONFIDENTIAL

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STRONGER MANAGEMENT CONTROLS IN UNDP, INCLUDING IMPROVED FINANCIAL PLANNING AND FORECASTING; 2) IT ANNOUNCED AN INCREASE IN ITS CONTRIBUTION TO UNDP FROM DOLS 78 MILLION IN 1975 TO DOLS 100 MILLION IN 1976; 3) FINALLY IT ANNOUNCED AT THE UNDP GOVERNING COUNCIL IN JUNE A U.S. PROPOSAL TO PURCHASE SUBSTANTIAL QUANTITIES OF UNDP'S ACCUMULATED NON-CONVERTIBLE CURRENCIES. THIS PROPOSAL WAS AIMED AT STRENGTHENING UNDP'S FINANCIAL POSITION FOR THE BENEFIT OF ALL RECIPIENT COUNTRIES, AND WE SEEK THE SUPPORT OF THOSE COUNTRIES FOR IT. (NOTE: AT THE TIME THAT THE PROGRAM REDUCTIONS FOR 1976 WERE ANNOUNCED, SOME OF THE RECIPIENT COUNTRIES ALREADY AFFECTED BY THE UNDP CUTBACKS APPROACHED THE UNITED STATES FOR HELP. ADDRESSEES IN THOSE COUNTRIES SHOULD REMIND HOST GOVERNMENTS OF THE EARLIER DEMARCHES AND INFORM THEM THAT THE USG HAS TABLED A PROPOSAL WHICH ADDRESSES THE PROBLEM.) AT THIS TIME RECIPIENT COUNTRIES CAN GIVE GREATEST SUPPORT BY APPROACHING THE SOVIET UNION URGING IT TO PARTICIPATE IN THIS PROGRAM, WHICH HAS AS ITS ONLY OBJECTIVE THE UNLOCKING OF IMMOBILIZED UNDP ASSETS FOR THE BENEFIT OF THE DEVELOPING WORLD, OR BY TAKING OTHER POSITIVE

ACTION AIMED AT ELIMINATING THIS PROBLEM (BY, FOR EXAMPLE, INCREASING THE PROPORTION OF ITS CONTRIBUTION WHICH MAY BE CONVERTED OR BY RELAXING INTERNAL FOREIGN EXCHANGE CONTROLS IN A WAY WHICH WOULD FACILITATE UNDP EXPENDITURES IN RUBLES FOR SOVIET GOODS AND SERVICES). WE HAVE SELECTED THE SOVIET UNION FOR APPROACH AT THIS TIME BECAUSE MORE THAN HALF THE ACCUMULATION IS IN RUBLES. IN VIEW OF THE FACT THE BALANCE IS MOSTLY IN SOVIET BLOC CURRENCIES, WE BELIEVE IT POINTLESS TO PROPOSE DEMARCHES ON OTHER DONORS UNTIL THE SOVIET ASPECT IS RESOLVED.

5. OUR OFFER AS IT RELATES TO THE SOVIETS IS THAT:

A. WE ARE WILLING, BASED UPON OUR NEEDS, TO PAY DOLLARS TO THE UNDP FOR SIGNIFICANT PORTIONS OF RUBLES HELD IN USSR BANK ACCOUNT IN NAME OF THE UNDP;

B. RUBLES WOULD BE TRANSFERRED TO U.S. EMBASSY'S CONFIDENTIAL

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RUBLE OPERATING ACCOUNT UPON PAYMENT BY U.S. OF DOLLARS TO UNDP;

C. SOVIET UNION WOULD AGREE TO ALLOW U.S. TO USE THE TRANSFERRED RUBLES IN SOVIET UNION WITHOUT RESTRICTION; AND

D. THE RATE OF EXCHANGE FOR THE PURCHASE OF THE RUBLES FROM UNDP WOULD BE AS FAVORABLE AS THE RATE OF EXCHANGE AT WHICH WE COULD BUY RUBLES THROUGH SOVIET BANKS AT OFFICIAL RATES.

6. UNDP HOLDINGS OF CURRENCIES IT HAS FOUND DIFFICULT TO UTILIZE (VARIOUSLY TERMED "DIFFICULT CURRENCIES," "NOT READILY USABLE CURRENCIES" OR "ACCUMULATED NON-CONVERTIBLE CURRENCIES") AS AT DECEMBER 31, 1975, AND ESTIMATED FOR THE END OF 1976 ARE AS FOLLOWS (U.S. DOLLAR EQUIVALENTS):

- DEC 31, 1975 DEC 31, 1976 (EST)
- (DOLS THOUSANDS) (DOLS THOUSANDS)

ALBANIA	DOLS	84	DOLS	170
ALGERIA		187		1,087
BULGARIA		552		767
CHINA		3,669		5,749
CUBA		1,268		1,372

CZECHOSLOVAKIA	704	1,548
DEM. REP. OF GERMANY	1,397	2,143
HUNGARY	363	409
NEW ZEALAND	1,237	1,614
POLAND	2,739	2,772
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USSR	16,032	16,763
YUGOSLAVIA	668	1,519
TOTAL	DOLS 28,901	DOLS 35,913

7. THE SOVIET RUBLES IN QUESTION EXIST IN THE FORM OF CREDITS IN A SOVIET CONTROLLED ACCOUNT IN THE BANK FOR FOREIGN TRADE OF THE USSR, MOSCOW. THESE ACCUMULATIONS HAVE RESULTED FROM THE SOVIET PRACTICE OVER THE YEARS OF MAKING ITS CONTRIBUTIONS TO UNDP IN RUBLES AND ALLOWING ONLY PARTIAL CONVERTIBILITY BY UNDP INTO OTHER CURRENCIES. THE CONDITIONS APPLIED BY THE USSR PRIOR TO 1971 PERMITTED UNDP, WITH SOME INGENUITY, TO CONVERT UP TO ABOUT 65 PERCENT OF USSR CONTRIBUTIONS. IN 1971 USSR ABRUPTLY ADOPTED THE CURRENT POLICY OF PERMITTING ONLY 25 PERCENT CONVERTIBILITY OF ITS ANNUAL CONTRIBUTION (WHICH HAS STOOD FOR 14 YEARS AT THE AMOUNT OF RUBLES 2,700,000).

8. FOR POLITICAL, IDEOLOGICAL AND ECONOMIC REASONS USSR HAS RESISTED ALL ATTEMPTS TO OBTAIN GREATER CONVERTIBILITY. ITS POSITION HAS BEEN AND REMAINS THAT IF THERE IS A WILL, UNDP AND ITS EXECUTING AGENCIES WILL BE ABLE TO DEVISE WAYS OF USING THESE FUNDS. WITH RARE EXCEPTIONS, THIS HAS NOT HAPPENED, MAINLY BECAUSE THE SERVICES AND GOODS THE SOVIETS HAVE OFFERED WERE NOT IN DEMAND OR, MORE IMPORTANTLY, BECAUSE AGENCIES OF THE USSR GOVERNMENT, OPERATING UNDER INFLEXIBLE FOREIGN EXCHANGE REGULATIONS OR GUIDELINES, ARE UNWILLING TO PROVIDE GOODS AND SERVICES AGAINST RUBLE PAYMENTS WITHOUT UNACCEPTABLE DELAYS. (THIS POLICY HAS LED TO SITUATION IN WHICH UNDP'S PURCHASES OF USSR GOODS AND SERVICES IN HARD CURRENCIES ANNUALLY EXCEED USSR RUBLE CONTRIBUTIONS.) THE NOTABLE EXCEPTIONS WERE 2 FAO REGIONAL FISHERY PROJECTS (2 TO 8 MILLION RUBLE POTENTIAL) PUT TOGETHER BY UNDP AND WHICH THE SOVIETS CONTINUALLY CITE AS A PROOF THAT SOMETHING CAN BE DONE IF THERE IS A WILL. UNDP HAS BEEN UNSUCCESSFUL IN DEVELOPING OTHER PROJECTS DESPITE SINCERE AND SUBSTANTIAL

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EFFORTS WITH THE RESULT THAT THE ACCUMULATION OF RUBLES MOUNTS (PRESENTLY AT THE RATE OF DOLS 700,000 NET PER ANNUM). UNDP HAS SENT SEVERAL MISSIONS TO MOSCOW FOR PURPOSE OF ACHIEVING GREATER UTILIZATION OF THESE FUNDS BUT WITHOUT SUCCESS.

9. UNTIL RECENTLY EXPERTS ENGAGED BY THE UNDP WERE PAID 25 PERCENT OF THEIR SALARIES IN HOME COUNTRY CURRENCY. THIS PROVIDED AN OUTLET FOR SOME OF THE ACCUMULATED RUBLES BECAUSE UNDP ENGAGES A NUMBER OF USSR EXPERTS. HOWEVER TO SIMPLIFY ACCOUNTING OPERATIONS UN AGENCIES RECENTLY DISCONTINUED THIS PRACTICE. THERE IS A GOOD CHANCE THAT BECAUSE OF OUR INSISTENCE THE UNDP, AT LEAST, WILL

LIKELY RE-ESTABLISH IT. IN THE UNDP GOVERNING COUNCIL THE U.S. IS WORKING WITH OTHER COUNTRIES ON OTHER MEASURES AS WELL TO DEAL WITH THE PROBLEM OF FUTURE ACCUMULATIONS.

10. IN SEEKING COOPERATION FROM LDC'S, THE EMBASSY SHOULD STRESS THAT IN THE FINAL ANALYSIS UNDP RECIPIENT COUNTRIES WOULD BE THE BENEFICIARIES OF A MORE FORTH-COMING USSR POSITION. EVEN IF USSR WOULD OPT FOR U.S. PROPOSAL OF PURCHASES OF NON-CONVERTIBLE CURRENCIES, THE UNITED STATES WOULD EXPERIENCE NO FINANCIAL BENEFIT. THE NON-CONVERTIBLE CURRENCIES WE PURCHASE FROM UNDP WOULD BE USED PRINCIPALLY TO COVER COSTS ASSOCIATED WITH OPERATING OUR EMBASSIES IN THE COUNTRIES OF ORIGIN OF THE NON-CONVERTIBLE CURRENCIES, COSTS WE WILL HAVE TO COVER ONE WAY OR ANOTHER. EMBASSY SHOULD ALSO STRESS WORLDWIDE SCOPE OF PROPOSAL, EMPHASIZING IT IS NOT AIMED AT USSR ALONE AND THAT WE DO NOT SEEK CONFRONTATION WITH THE SOVIETS OVER IT. OUR GOAL WITH REGARD TO THE ACCUMULATED RUBLES, AS WITH OTHER ACCUMULATED CURRENCIES, IS IN REACHING AN AGREEMENT UNDER WHICH UNDP RECIPIENT COUNTRIES CAN RECEIVE THE FULL BENEFIT OF THESE CONTRIBUTIONS, AN OBJECTIVE WHICH PRESUMABLY THE SOVIETS SHARE AS WELL. WE DO NOT VIEW OUR PROPOSAL AS THE ONLY WAY OF ACHIEVING THIS OBJECTIVE AND WOULD WELCOME ANY OTHER CONCRETE PROPOSALS OR ACTIONS TO THIS END. YOU MAY INFORM HOST GOVERNMENT

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THAT AT LEAST ONE DONOR OF ACCUMULATED NON-CONVERTIBLE CURRENCY HAS ALREADY APPROACHED U.S. IN RESPONSE TO OUR OFFER INDICATING A STRONG INTEREST AND LIKELIHOOD OF ACCEPTING (FYI NEW ZEALAND).

11. IN DISCUSSIONS OF PROPOSAL POST SHOULD BEAR IN MIND THAT A LARGE NUMBER OF COUNTRIES PAY THEIR CONTRIBUTION TO UNDP IN NON-CONVERTIBLE CURRENCIES. WITH EXCEPTION OF THE GROUP OF CURRENCIES SET OUT IN PARA 6 ABOVE, THIS PRESENTS NO DIFFICULTY AS UNDP HAS A REAL NEED FOR THESE CURRENCIES TO MEET LOCAL CURRENCY COSTS OF PROGRAMS IN THE DONOR COUNTRIES CONCERNED.

12. FOR CARACAS: VENEZUELA'S INFLUENCE IN THIRD WORLD AND LATIN AMERICA WOULD MAKE GOV SUPPORT PARTICULARLY USEFUL. HOWEVER, EMBASSY CARACAS IN BEST POSITION TO DETERMINE FEASIBILITY OF MAKING PROPOSED APPROACH VIS-A-VIS OUR OTHER PRIORITIES.

13. FOR ALL POSTS: WE RECENTLY RAISED OUR PROPOSAL DIRECTLY WITH THE SOVIETS IN MOSCOW THE SOVIET REACTION WAS A NEGATIVE ONE, BUT A LATER, DEFINITIVE RESPONSE WAS PROMISED. KISSINGER

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